

Message Text

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TAGS: EFIN, IT

SUBJECT: OFFICIAL ITALIAN POSITION ON CURRENT EXCHANGE MARKET
DEVELOPMENTS

REF: 77 ROME 20669

1. /SUMMARY/. MAIN THRUST OF RECENT STATEMENTS ON DOLLAR BY
TREASURY MINISTER STAMMATI AND BANK OF ITALY GOVERNOR BAFFI
HAS BEEN TO REASSURE ITALIANS ON NEUTRAL, IF NOT BENEFICIAL,
EFFECTS OF DOLLAR DECLINE FOR ITALY. ITALIAN OFICIALS ARE
CONCERNED, HOWEVER, ABOUT THE EFFECT OF CONTINUALLY DEPRECIATING
DOLLAR ON PRICING POLICIES OF RAW MATERIAL EXPORTERS, E.G., OF OPEC.
/END SUMMARY/.

2. IN RESPONDING TO SERIES OF QUESTIONS IN CURRENT ISSUE
OF ITALIAN WEEKLY "IL MONDO", BANK OF ITALY GOVERNOR QUOTED
RECENT STUDY BY JOINT ECONOMIC COMMITTEE ON TRENDS IN U.S.
INTERNATIONAL COMPETITIVENESS TO EFFECT THAT U.S. COMPETITIVENESS
IS DOWN SLIGHTLY FROM ITS HIGH IN 1973-1974 BUT UP FROM 1971
LEVEL. BAFFI CONCLUDED THAT THE WEAKNESS OF THE DOLLAR WAS,
THEREFORE, PARTIALLY ATTRIBUTABLE TO OTHER FACTORS, I.E., THE
DIFFERENCE BETWEEN THE PHASE OF THE BUSINESS CYCLE IN THE UNITED
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STATES AND IN THE REST OF THE WORLD AND THE WEAKNESS OF DEMAND
IN SOME IMPORTANT U.S. EXPORT MARKETS. HE SAID CENTRAL BANK
INTERVENTION COULD LIMIT EXCHANGE RATE FLUCTUATIONS IN THE SHORT
RUN, BUT THAT A LASTING EQUILIBRIUM REQUIRED THE ELIMINATION
OF THE PAYMENTS IMBALANCES BETWEEN THE OIL EXPORTERS AND THE
INDUSTRIALIZED COUNTRIES AND ALSO AMONG THE INDUSTRIALIZED
COUNTRIES THEMSELVES. BAFFI SAID RECENT EXPERIENCE HAS SHOWN

THAT EXCHANGE RATE CHANGES WILL NOT IN THEMSELVES BRING ABOUT SUCH AN EQUILIBRIUM SINCE THESE ACT TO INCREASE OR DECREASE INTERNAL PRICES SO AS TO MAINTAIN UNCHANGED INTERNAL RELATIVE PRICE AND COST STRUCTURES AND RELATIVE COMPETITIVE POSITIONS. BAFFI ALSO SAID THAT SHOULD THE DECLINE OF THE DOLLAR CONTINUE PRESSURES WOULD MOUNT FOR INCREASES IN RAW MATERIAL PRICES "AT THE SOURCES." REGARDING EFFECT OF THE DOLLAR WEAKNESS ON ITALY, BAFFI POINTED TO STABILITY OF LIRA/DOLLAR EXCHANGE RATE AND POSITIVE CONSEQUENCES FOR DOMESTIC PRICES SINCE ALMOST HALF OF ITALIAN IMPORTS ARE PAID FOR IN DOLLARS. HE ALSO SAID THAT LIRA DEPRECIATION AGAINST STRONG EUROPEAN CURRENCIES AND YEN WOULD HELP RECONSTITUTE MARGIN OF COMPETITIVENESS OF ITALIAN EXPORTS, GIVEN HIGHER RATE OF INCREASE IN UNIT COSTS AND PRICES IN ITALY THEN IN ITALY'S MOST IMPORTANT TRADING PARTNERS.

3. TREASURY MINISTER STAMMATI MADE SAME POINTS ABOUT EFFECT OF DOLLAR WEAKNESS ON ITALIAN ECONOMY IN CURRENT ISSUE OF "L'ESPRESSO" IN ARTICLE ENTITLED, "OVER US THE STORM HAS PASSED WITHOUT DAMAGE."

GARDNER

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